

CADDO PARISH SEWERAGE DISTRICT NO. 2**CADDO PARISH, LOUISIANA****JUNE 30, 2005**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 9-28-05

CADDO PARISH SEWERAGE DISTRICT NO. 2

CADDO PARISH, LOUISIANA

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CADDO PARISH SEWERAGE DISTRICT NO. 2

CADDO PARISH, LOUISIANA

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AUDITED FINANCIAL STATEMENTS

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WILLIAM L. HIGHTOWER, CPA

August 15, 2005

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities and each major fund of Caddo Parish Sewerage District No. 2, a component unit of the Parish of Caddo, Louisiana as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Caddo Parish Sewerage District No. 2 as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on Pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2005 on our consideration of the District's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Caddo Parish Sewerage District No. 2 basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Caddo Parish Sewerage District No. 2. Such information, with the exception of the schedule of insurance in force at June 30, 2005, on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hearn McElroy & Vestal LLP

REQUIRED SUPPLEMENTARY INFORMATION:

MANAGEMENT'S DISCUSSION

AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the financial performance of Caddo Parish Sewerage District No. 2 provides an overview of the District's financial activities for the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the District's financial statements, which begin on Page 7.

FINANCIAL HIGHLIGHTS

The District's net assets decreased by \$62,109 or 6.5%.

The District's total revenues were \$224,144 in 2005 compared to \$247,015 in 2004.

During the year ended June 30, 2005, the District had total expenses, excluding depreciation, of \$191,909.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on Pages 7 and 8) provide information about the activities of the District as a whole. Fund financial statements start on Page 9. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The District is a component unit of the Parish of Caddo, Louisiana because the Parish must approve all officials appointed to the District's Board of Supervisors. The accompanying financial statements present information only on the funds maintained by the District.

Reporting the Funds Maintained by the District as a Whole

The Statement of Net Assets and the Statement of Activities

The Statement of Net Assets and the Statement of Activities report information about the funds maintained by the District as a whole and about its activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. The District's net assets – the difference between assets and liabilities – is one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its financial health is improving or deteriorating.

In the Statement of Net Assets and the Statement of Activities, we record the funds maintained by the District as business-type activities:

Business-type activities – revenues earned, resources provided for, and expenses incurred for the provision of sewerage services to the District's general public.

Reporting the Funds Maintained by the District

Our analysis of the major funds maintained by the District begins on Page 9. The fund financial statements provide detailed information about the funds maintained by the District. The District's funds use the following accounting approaches.

Proprietary fund – All of the District's expenses incurred for the provision of sewerage services are reported in a proprietary fund, which focuses on measuring the total costs, including depreciation, of the service, and primarily recovering those costs through user charges or other revenue sources. This fund is reported using the accrual basis of accounting, which measures revenue when earned and expenses when incurred.

THE FUNDS MAINTAINED BY THE DISTRICT AS A WHOLE

The District's total net assets changed from a year ago, decreasing from \$952,939 to \$890,830. Our analysis below focuses on key elements of the total funds for the 2005 and 2004 fiscal years.

Table 1
Net Assets

	<u>Government-Wide Activities</u>	
	<u>2005</u>	<u>2004</u>
Current assets	203,760	220,856
Capital assets	968,639	1,041,036
Other assets	<u>260</u>	<u>260</u>
Total assets	1,172,659	1,262,152
Current liabilities	56,829	46,213
Noncurrent liabilities	<u>225,000</u>	<u>263,000</u>
Total liabilities	281,829	309,213
Net assets:		
Investments in capital assets	968,639	1,041,036
Restricted for debt service	46,107	51,171
Unrestricted	<u>(123,916)</u>	<u>(139,268)</u>
Total net assets	<u>890,830</u>	<u>952,939</u>

Net assets of the funds maintained by the District decreased by \$62,109 or 6.5%.

Table 2
Change in Net Assets

	<u>Government-Wide Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenues		
Charges for services	150,014	136,715
Ad valorem taxes	71,117	105,317
Other	<u>3,013</u>	<u>4,983</u>
Total revenues	224,144	247,015
Expenses		
General governmental	<u>286,253</u>	<u>293,598</u>
(Decrease) in net assets	<u>(62,109)</u>	<u>(46,583)</u>

For the funds maintained by the District, total revenues decreased \$22,871, from total revenues in 2004 of \$247,015, to total revenues of \$224,144 in 2005. Program revenues increased \$13,299, from program revenue in 2004 of \$136,715 to program revenue of \$150,014 in 2005, which resulted from an increase in fees from sewer service. This increase, when combined with the decrease in ad valorem tax revenues resulting from a decrease in millage rates, caused the decline in total revenues for 2005.

In addition, total expenses decreased slightly by \$7,354, from \$293,598 in 2004, to \$286,253 in 2005.

CAPITAL ASSETS

At the end of 2005, the District had invested \$968,639 in capital assets from those funds maintained by the District.

Table 3
Capital Assets At Year End

	<u>Government-Wide Activities</u>	
	<u>2005</u>	<u>2004</u>
Office furniture and fixtures	4,299	4,299
Office equipment	19,070	19,070
Building and improvements	50,132	50,132
Sewerage collection system	934,298	912,352
Treatment and disposal plant	<u>1,151,864</u>	<u>1,151,864</u>
	2,159,663	2,137,717
Less-accumulated depreciation	<u>(1,247,276)</u>	<u>(1,152,933)</u>
	912,387	984,784
Real estate and right-of-ways	<u>56,252</u>	<u>56,252</u>
	<u>968,639</u>	<u>1,041,036</u>

This year's major additions included:

	<u>Government-Wide Activities</u>	
	<u>2005</u>	<u>2004</u>
Sewerage collection system-upgrade to existing lines/Lift Stations	21,946	227,713
Building improvements	-	<u>2,655</u>
Total	<u>21,946</u>	<u>230,368</u>

These additions were financed by funds generated from the issuance of \$300,000 in certificates of indebtedness in 2004.

It is anticipated that the District's net assets will hold steady in 2006. The District has added no major new programs or initiatives to be funded in 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the finances for those funds maintained by the District and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Caddo Parish Sewerage District No. 2 at 4126 Ranier, Shreveport, Louisiana 71107.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF NET ASSETS

JUNE 30, 2005

<u>A S S E T S</u>	<u>Business-Type Activities</u>
Cash and cash equivalents	153,160
Certificates of deposit	25,939
Accounts receivable	18,078
Prepaid expenses	6,583
Property, plant and equipment	968,639
Utility deposits	<u>260</u>
Total assets	<u>1,172,659</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Liabilities:</u>	
Accounts payable	12,309
Customer deposits	6,520
Current portion of certificate of indebtedness	38,000
Certificate of indebtedness-less current portion	<u>225,000</u>
Total liabilities	281,829
<u>Net assets:</u>	
Invested in capital assets	968,639
Restricted for debt service	46,107
Unrestricted	<u>(123,916)</u>
Total net assets	<u>890,830</u>
Total liabilities and net assets	<u>1,172,659</u>

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Business-Type Activities</u>
<u>Expenses:</u>	
Business-type activities:	
Sewerage services	<u>286,253</u>
Total expenses	286,253
 <u>Program revenue:</u>	
Charges for services	<u>150,014</u>
 <u>Net revenue</u>	(136,239)
 <u>General revenue:</u>	
Ad valorem taxes	71,117
State revenue sharing	2,032
Interest	<u>981</u>
	<u>74,130</u>
 <u>Change in net assets</u>	(62,109)
 <u>Net assets-beginning of year</u>	<u>952,939</u>
 <u>Net assets-end of year</u>	<u>890,830</u>

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

BALANCE SHEET-PROPRIETARY FUND

JUNE 30, 2005

<u>A S S E T S</u>	<u>Enterprise</u>
Cash and cash equivalents-Note 5	107,053
Cash restricted for debt service	46,107
Certificates of deposit	25,939
Accounts receivable	18,078
Prepaid expenses	6,583
Property, plant and equipment-Note 3	968,639
Utility deposits	<u>260</u>
Total assets	<u>1,172,659</u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>Liabilities:</u>	
Accounts payable	12,309
Customer deposits	6,520
Certificate of indebtedness-Note 4	<u>263,000</u>
Total liabilities	281,829
<u>Net assets:</u>	
Contributions from other funds	1,189,385
Accumulated deficit	<u>(298,555)</u>
Total net assets	<u>890,830</u>
Total liabilities and net assets	<u>1,172,659</u>

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS-

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise</u>
<u>Operating revenues:</u>	
Sewerage connection fees	5,200
Sewerage fees	136,271
Account activation fee	320
Service charge fee	6,735
Other	<u>1,488</u>
Total operating revenues	150,014
<u>Operating expenses:</u>	
Accounting and auditing fees	6,975
Attorney fees	1,504
Bad debts	5,819
Board of supervisors' fees	2,655
Contract labor	33,600
Data processing	490
Depreciation	94,344
Insurance	16,360
Laboratory fees	2,824
Line rentals	250
Miscellaneous	2,799
Office supplies	1,894
Payroll taxes	1,540
Plant supplies	648
Repairs and maintenance	50,140
Salaries	20,124
Security	854
Telephone	4,896
Treatment plant operation contract	7,803
Utilities	<u>17,303</u>
Total operating expenses	<u>272,822</u>
<u>(Loss) from operations</u>	(122,808)

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS-
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise</u>
<u>Nonoperating revenues:</u>	
Ad valorem taxes-Note 2	71,117
State revenue sharing	2,032
Interest	<u>981</u>
Total nonoperating revenues	74,130
<u>Nonoperating expenses:</u>	
Interest	<u>13,431</u>
<u>Change in net assets</u>	(62,109)
<u>Net assets (deficit)-beginning of year</u>	<u>(236,446)</u>
<u>Net assets (deficit)-end of year-Note 5</u>	<u>(298,555)</u>

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2
STATEMENT OF CASH FLOWS-PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Enterprise</u>
<u>Cash flows from operating activities:</u>	
(Loss) from operations	(122,808)
Adjustments to reconcile (loss) from operations to net cash (used) by operating activities:	
Depreciation and amortization	94,344
Changes in assets and liabilities:	
Accounts receivable	(1,765)
Accounts payable	8,016
Customer deposits	<u>1,600</u>
Net cash (used) by operating activities	(20,613)
<u>Cash flows from noncapital financing activities:</u>	
Taxes collected	71,117
State revenue sharing	<u>2,032</u>
Net cash provided by noncapital financing activities	73,149
<u>Cash flows from capital and related financing activities:</u>	
Purchases of plant and equipment	(21,947)
Interest paid	(13,431)
Payments on bond principal	(37,000)
Net change in cash restricted for debt service	<u>5,064</u>
Net cash (used) by capital and related financing activities	(67,314)
<u>Cash flows from investing activities:</u>	
Receipts of interest	<u>981</u>
Net cash provided by investing activities	<u>981</u>
<u>Net (decrease) in cash and cash equivalents</u>	(13,797)
<u>Cash and cash equivalents-beginning of year</u>	<u>120,850</u>
<u>Cash and cash equivalents-end of year</u>	<u><u>107,053</u></u>

The accompanying notes are an integral part of these financial statements.

CADDO PARISH SEWERAGE DISTRICT NO. 2

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2005

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Caddo Parish Sewerage District No. 2 ("the District") conform to accounting principles generally accepted in the United States of America, as applicable to local governments. Such accounting and reporting procedures also conform to the requirements of Louisiana Revised Statutes and to the guidelines set forth in the Louisiana Governmental Audit Guide.

The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the Statement included the following:

The financial statements now include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The District was required to implement the general provisions of the Statement in the year ended June 30, 2002.

The following is a summary of certain significant accounting policies:

A. Financial Reporting Entity

The District is a component unit of the Parish of Caddo, Louisiana. The financial statements include all funds which are controlled by or are dependent on the District's Board of Supervisors. Control by or dependence on the Parish was determined on the basis of taxing authority, authority to issue debt, election or appointment of governing body, and other general oversight responsibility.

B. Basic Financial Statements–Government-Wide Statements

The Sewerage District's basic financial statements include both government-wide (reporting the funds maintained by the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Accordingly, the District's sewerage usage and connection functions, including related debt service, are classified as business-type activities.

1. Summary of Significant Accounting Policies (Continued)

In the government-wide Statement of Net Assets, the business-type activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and liabilities. The District's net assets are reported in three parts – invested in capital assets, restricted net assets, and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of the District's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, which must be directly associated with the function. The net costs (by function) are normally covered by general revenue.

This government-wide focus is more on the sustainability of the Sewerage District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Basic Financial Statements–Fund Financial Statements

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District reports only one fund in the financial statements in this report as follows:

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues of the District consist principally of ad valorem taxes and fees for services relating to sewerage services. Interest income is recorded when earned. Fees for services are recorded when earned.

1. **Summary of Significant Accounting Policies** (Continued)

E. Fixed Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

All fixed assets are stated at historical cost. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives by type of asset are as follows:

Treatment and disposal plant	20-50 years
Sewer collection system	10-50 years
Equipment	5-15 years
Office furniture and fixtures	15 years

Long-term liabilities expected to be financed from the operations of the enterprise fund are accounted for in that fund.

F. Cash and Cash Equivalents

Cash and cash equivalents includes all cash on deposit with maturities when acquired of three months or less.

G. Capitalization of Construction Period Interest

The amount of interest cost capitalized is equal to the average amount of accumulated expenditures multiplied by the average interest rate on the general obligation bonds outstanding for the period during which construction occurs.

H. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

2. **Ad Valorem Taxes**

Ad valorem taxes are recorded as received. Such taxes are levied by the District in November of each calendar year and are due by December 31 of that year on the assessed valuation of property located within the District's boundaries. Hence, even though taxes for January 1 through June 30 are measurable as of June 30, they do not meet the "availability" criteria for accrual since they are not due within 60 days of the District's fiscal year-end. Accordingly, such taxes are not recorded until received.

2. Ad Valorem Taxes (Continued)

During the year ended June 30, 2005, ad valorem taxes received were based on the December 31, 2004 net taxable value of \$4,369,260. The total millage rate for the calendar year 2004 was 16.98 mills which consisted of 16.98 mills for maintenance and operations.

3. Property, Plant and Equipment

The following is a summary of property, plant and equipment accounts and related accumulated depreciation:

Office furniture and fixtures	4,299
Office equipment	19,070
Building and improvements	50,132
Sewerage collection system	934,298
Treatment and disposal plant	<u>1,151,864</u>
	2,159,663
<u>Less-accumulated depreciation</u>	<u>(1,247,276)</u>
	912,387
Real estate and right-of-ways	<u>56,252</u>
	<u>968,639</u>

The treatment and disposal plant was upgraded during 1993 at an approximate cost of \$754,000, including capitalized interest of \$58,472.

4. Certificate of Indebtedness

On December 9, 2003, the District sold \$300,000 of certificate of indebtedness for the purpose of upgrading the present sewerage facilities. Outstanding certificates of indebtedness amount to \$263,000 at June 30, 2005, with interest at the rate of 4.7%. Future required debt service payments, including interest of \$45,026 are as follows at June 30, 2005:

2006	50,361
2007	51,575
2008	51,648
2009	51,627
2010	51,512
2011	<u>51,303</u>
	<u>308,026</u>

The certificate of indebtedness is secured by the excess of annual revenues of the District above statutory, necessary and usual charges in each fiscal year during which the certificate is outstanding, and any other legally available excess revenues of the District.

5. Cash

Cash amounts on deposit are fully protected by FDIC insurance.

SUPPLEMENTARY INFORMATION

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF INSURANCE IN FORCE

JUNE 30, 2005

Coverage

General liability	<u>2,000,000</u>
Employee dishonesty	<u>20,000</u>
Computer insurance	<u>30,178</u>
Building coverage (4126 Ranier)	<u>40,000</u>
Vehicle liability	<u>1,000,000</u>
Directors and officers liability	<u>1,000,000</u>

UNAUDITED

CADDO PARISH SEWERAGE DISTRICT NO. 2
SCHEDULE OF PER DIEM PAID TO BOARD OF SUPERVISORS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Board Member</u>	<u>Meetings Attended Regular</u>	<u>Meetings Attended Special</u>	<u>Total Per Diem</u>
Keenan Borland	11	1	685
Thomas Christie	3	1	205
Raymond E. Donelson	12	-	720
Gerald Fussell	11	1	685
Terry Streetman	6	1	<u>360</u>
Total per diem paid			<u>2,655</u>

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August 15, 2005

The Board of Supervisors
Caddo Parish Sewerage District No. 2
Caddo Parish, Louisiana

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities and the major fund of Caddo Parish Sewerage District No. 2 (the District), a component unit of the Caddo Parish Commission, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended for the information and use of the members of the Board of Supervisors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy + Ventral, LLP

CADDO PARISH SEWERAGE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Caddo Parish Sewerage District No. 2.
2. One reportable condition, which is a material weakness, relating to the audit of the financial statements, is reported.
3. No instances of noncompliance are reported.
4. Caddo Parish Sewerage District No. 2 was not subject to a Federal Single Audit for the year ended June 30, 2005.

B. Findings - Financial Statement Audit

None

CADDO PARISH SEWERAGE DISTRICT NO. 2

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED JUNE 30, 2005

- 04-1 Segregation of duties - resolved by having certain members of Board review and/or approve financial transactions.

CADDO PARISH SEWERAGE DISTRICT NO. 2
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005

No findings were reported.